



# **CITYWIDE DISBURSEMENTS - 2001**

## **AUDIT REPORT #0212**

February 2002



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## MEMORANDUM

**To:** Mayor and Members of the City Commission  
**From:** Sam M. McCall, City Auditor  
**Date:** February 7, 2002  
**Subject:** Audit Report on Citywide Disbursements 2001 (#0212)

We have completed an audit of Citywide Disbursements – 2001 (#0212). We submit this report that contains our audit issues and recommended actions and the responses from the City Manager and the City Treasurer-Clerk. We will periodically review the implementation of these recommended actions.

We thank applicable City staff for their cooperation and assistance during this audit. If you have any questions or need a more detailed briefing on this audit, please contact me.

Respectfully submitted,

Sam M. McCall  
City Auditor

SMM/mbd  
attachment

Copy: Members of the Audit Committee  
Appointed Officials  
Executive Team  
Paula G. Cook, Records Administrator

*An All-America City*



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# “Citywide Disbursements - 2001”



Sam M. McCall, CPA, CIA, CGFM  
City Auditor

Report #0212

February 7, 2002

## Executive Summary

*Of City disbursements totaling \$474 million, we selected and tested 135 transactions totaling \$36,200,145.*

*Overall, disbursements were proper, authorized, and made in accordance with established laws, rules, and procedures.*

*However, certain exceptions were noted.*

*General disbursement testing disclosed overpayments to a vendor that were not timely recovered; vendor invoices were not always timely paid; and competitive procurement requirements were not followed for an acquisition of roofing services.*

City disbursements during the period July 1, 2000, through June 30, 2001, totaled \$474,345,463. We classified those disbursements into seven categories: (1) general disbursements, (2) payroll, (3) retirement benefits, (4) energy purchases, (5) capital outlays, (6) risk management disbursements, and (7) petty cash disbursements. We tested a total of 135 disbursements totaling \$36,200,145 from these categories.

Overall, disbursements were proper, authorized, supported, accurately recorded, and made in accordance with established laws, rules, and procedures. However, instances were noted where controls were not operating effectively to ensure that (1) City funds were disbursed only for authorized purposes, in appropriate amounts, and in accordance with controlling City policies and contractual provisions and (2) disbursements were properly supported and recorded in the City's accounting records. Recommendations and corrective action plans have been developed to address these areas.

Testing of the general disbursements category showed expenditures were properly recorded, for authorized City business, and in accordance with controlling laws, rules, and procedures. However, an instance was noted where identified overpayments totaling \$1,988 were not timely recovered. In addition, vendor invoices were not always timely paid, and an instance was noted where competitive procurement requirements were not followed for an acquisition of roofing services.

*Instances were identified where employees were overpaid and underpaid due to clerical errors.*

Our test of payroll disbursements disclosed instances where employees were overpaid and underpaid due to undetected clerical errors. In addition, we noted an instance where City leave policy was not followed. Furthermore, we noted that deductions from employee salary payments for parking fees were not retained for terminated/reassigned employees in accordance with record retention requirements.

*Language in the City's pension plans needed revision. Also, timely and proper reconciliations of a City pension investment account should be done.*

Our test of pension disbursements showed that retirement benefits were generally properly calculated and paid to retirees and their designated beneficiaries/annuitants. However, two instances were noted necessitating changes of the language in the City's pension plans to ensure those plans reflect the intent and practice of the City. Also, the City's investment account maintained with an investment company under the City's defined contribution plan was not being timely or properly reconciled.

*Documented confirmations of purchase prices were not obtained for certain energy acquisitions.*

Documentation confirming applicable terms and conditions (e.g., purchase price) was not obtained for certain short-term open market acquisitions of source fuels and power by the Energy Services and Electric Operations departments. Such documentation would serve to resolve any disputes or misunderstandings for terms and conditions consummated verbally over the telephone. For those purchases made by Electric Operations staff at the electric system control center, plans and actions that will address this issue had been initiated prior to our audit.

*In one instance the City did not receive a \$711 discount to which it was entitled.*

Our test of capital outlay disbursements showed that purchased assets were properly acquired and recorded. However, one instance was noted where the City did not receive a \$711 discount to which it was entitled.

*Enhancements to controls and policy over petty cash disbursements are needed.*

Sampled petty cash disbursements were generally proper and for authorized City business. However, control and policy enhancements are needed to ensure such disbursements are properly



authorized, recorded, and in accordance with governing laws and City policy.

*Additional “data mining” of City disbursements totaling \$839 million over a 21-month period identified 276 apparent duplicate payments to vendors. Those apparent duplicates totaled \$342,966.*

In addition to traditional transaction selection and testing, we performed various analyses of transactions within some of the disbursement categories. These analyses included “data mining” techniques that are possible due to the technological advances in computer hardware and software. Data mining involves the analysis of entire transaction populations for the purpose of identifying unusual activity or transactions likely to have been executed in error or representing violations of City policy and good business practices. Some of the data mining techniques were applied to disbursements prior to and subsequent to the primary 12-month period covered by this audit.

Data mining techniques applied to City disbursements of approximately \$839 million made over a 21-month period disclosed 276 instances where duplicate payments were apparently made to vendors. Those apparent duplicates totaled \$342,966. As shown in the following table, research on 74 of those 276 payments completed by Accounts Payable staff, as of the end of our fieldwork, indicates that \$249,881 of the \$342,966 (or 73 percent) had been detected by the applicable vendors or City staff and recovered prior to our inquiry.

Status as of November 8, 2001	NO.	Amount
Detected by vendors/City staff and recovered prior to audit inquiry	7	\$249,881
Detected by City staff prior to our inquiry but not yet recovered	47	6,329
Not detected by City staff prior to our inquiry but subsequently recovered by City staff	8	5,155
Not detected by City staff prior to our inquiry but staff in process of recovering amounts or determining if previously recovered	<u>12</u>	<u>4,601</u>
Subtotal	74	\$265,966
Research in progress as of November 8, 2001	202	77,000
Total	276	\$342,966

In addition to the 276 apparent duplicate payments, we identified 15 instances where duplicate payments totaling \$827,123 were initiated but subsequently detected by City staff and stopped/cancelled before the checks were created or sent to vendors. However, the duplicate payments were not timely deleted from the recently implemented PeopleSoft Financial Management System. These 15 occurrences were attributable to difficulties encountered by the City during the transition process to that new system.

*Corrective actions to address issues identified have been developed and initiated.*

Actions to remedy and resolve the noted instances have been identified and developed in conjunction with applicable City management. Many of these actions have already been initiated.

We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

# “Citywide Disbursements - 2001”



Sam M. McCall, CPA, CIA, CGFM  
City Auditor

Report #0212

February 7, 2002

## ***Objectives, Scope, and Methodology***

The objectives of this annual audit were to determine whether disbursements of City funds were: (1) for authorized and necessary purposes; (2) made in accordance with governing laws, rules, and procedures; (3) supported by appropriate documentation; and (4) properly recorded within the City’s financial records. The results of this audit are relied on by the City’s external auditors and, as a result, reduce the costs associated with the City’s financial statement audit.

The scope of this audit included a review of disbursements made during the period July 1, 2000, through June 30, 2001. To address the stated audit objectives, we selected samples of disbursements by category and reviewed the related supporting documentation, completed analytical procedures, interviewed applicable City staff, and made observations as necessary.

In addition, certain “data mining” procedures to identify duplicate payments were expanded to cover the 6-month period prior to July 1, 2000, and the 3-month period subsequent to June 30, 2001. Data mining procedures represent analyses to identify abnormal transactions or activity within entire populations of transactions. Such procedures are possible due to technological advances in computer hardware and software.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing.

## Background

During the period July 1, 2000, through June 30, 2001, the City made disbursements of \$474,345,463. For purposes of this audit, we classified those disbursements into seven categories as shown in the following table:

*The City disbursed over \$474 million during the period July 1, 2000, through June 30, 2001.*

CATEGORY	TRANSACTIONS	AMOUNT
General	74,568	**\$166,969,419
Payroll	85,266	\$113,624,891
Retirement	9,841	\$17,926,109
Energy Purchases	183	\$137,500,902
Capital Outlay	1,082	\$36,002,897
Risk Management	679	\$2,277,577
Petty Cash	*240	\$43,668
<b>TOTAL</b>	<b>171,859</b>	<b>\$474,345,463</b>
*This represents the number of daily summaries; the number of actual annual disbursements is estimated to be 2,000 to 2,500.		
**Excluded from this total is \$35,018,433 representing disbursements of payroll and retirement deductions to applicable entities (e.g., IRS, insurance providers). This amount was excluded to preclude counting that amount twice as it is also included in the payroll and retirement totals above.		

For each of those categories we completed analytical procedures, selected samples, and applied test criteria designed to address our stated audit objectives. An overview of the testing performed for each category and the resulting findings are noted in the following sections of this report.

## General Disbursements

*We tested 20 general disbursements totaling \$13,857,182. We found controls adequate and disbursements proper; however, some issues were identified.*

The category of general disbursements included all City payments other than disbursements for employee payroll, retirement benefits paid to former employees and their beneficiaries/annuitants, energy purchases, capital outlays, risk management disbursements, and petty cash reimbursements. Furthermore, although reimbursements to the applicable bank for the accumulation of monthly purchase card acquisitions were included in this population, individual purchase card disbursements were excluded from the scope of this audit. (They will be addressed in a separate audit.) Examples of disbursements audited as part of this category included, but were not limited to, payments for the acquisition of equipment, supplies, parts, inventory, services, energy, and land; loan disbursements, contractual payments, and utility refunds to City customers. For this category we selected a sample of 20 disbursements totaling \$13,857,182. Test criteria applied to these sampled items included:

- verifying that disbursements were authorized, supported, and for reasonable purposes,
- verifying that appropriate competitive acquisition procedures were followed,
- verifying that payments were made in proper amounts and in accordance with contractual terms and conditions,
- verifying that the disbursements were properly recorded in the City's accounting records, and
- verifying that the disbursements were otherwise made in accordance with established laws, rules, and procedures.

Overall, we found that general disbursements were (1) supported and for authorized and reasonable purposes, (2) made in proper amounts, (3) properly recorded, and (4) made in compliance with established laws, rules, and procedures. However, certain issues were identified as described in the following paragraphs.

*Efforts to recover overpayments totaling \$1,988 were not timely.*

**Timely efforts were not made to recover contractor overpayments identified by Procurement Services.** During a review of paid invoices conducted in March 2001, staff of Procurement Services determined that a vendor providing dumpster rental services to City facilities had been overpaid a total of \$1,988. The overpayments pertained to 15 invoices for services provided to the Airport. In each instance, the vendor had billed at a rate greater than the contract rate. (The overbillings were not detected by Airport staff as they initially were not aware of the three-year citywide contract, executed February 1, 2000, that established rental rates for all City facilities.) The vendor was notified of the overpayments by Procurement Services in March 2001. We noted that as of the time of our fieldwork in October 2001, seven months after Procurement's review and initial contact with the vendor, follow-up efforts had not been made to recover the identified overpayments. Subsequent to our inquiry, staff of Accounts Payable initiated efforts to recover the funds.

*Invoices were not always paid in a timely manner.*

**Instances were noted where the City did not timely pay vendors.** During our review we noted several instances where one vendor had not been timely paid for services rendered and billed to the City. This vendor provided dumpster rental services to City facilities. The issue of late payment of invoices to this vendor was initially identified by Procurement Services staff in connection with a random review of vendor payments conducted in March 2001 (see comment above relating to contractor overpayments). We followed up on this issue as part of our current fieldwork. We noted 16 invoices, totaling \$1,648.89, which had not yet been paid as of November 27, 2001. Based on the invoice due dates, the 16 invoices were delinquent for periods ranging from 39 to 162 days as of that date. In response to our inquiry, Accounts Payable staff attributed these overdue invoices primarily to difficulties incurred by staff of the applicable City departments (Electric, NCS, Parks and Recreation, TPD, Building Services, Water, and Aviation) during the recent transition to the new PeopleSoft financial management system (FMS). Specifically, department requests of

Accounts Payable to process and pay the invoices were rejected because of inappropriate (or lack of) actions by department staff in regard to the new system. Subsequent to our inquiry, Accounts Payable staff provided evidence of efforts to process and pay the delinquent invoices. Furthermore, Accounts Payable staff is working with applicable departments to ensure that subsequent invoices are properly and timely processed within the PeopleSoft FMS.

Two other instances were noted where the City did not timely pay vendors. In the first instance the City received a shipment of asphalt on January 25, 2001. The related vendor invoice was received by the Streets and Drainage Division within the Public Works Department on February 1, 2001. However, the Streets and Drainage Division did not acknowledge receipt of the asphalt within the City's financial system until May 23, 2001. Furthermore, the invoice was not submitted to the Accounts Payable office until May 31, 2001. As a result, the invoice was not paid until June 4, 2001, which was four months after receipt of the goods and vendor invoice by Streets and Drainage. In the second instance (identified during our analysis for duplicate payments), an invoice from a vendor was not paid timely by the Fire Department. As a result, the City could not take advantage of a discount that was available if paid within 10 days of the City's receipt of the invoice. As a result, the City paid \$20 that it otherwise could have saved. Fire Department staff indicated this instance occurred when staff responsible for the timely processing of invoices was on leave. Timely processing and payment of invoices for goods and services not only is good business practice but also required by State statute.

*Competitive procurement requirements were not followed for a purchase of roofing repairs.*

**Competitive procurement practices required by applicable contract terms were not followed for an acquisition of roofing services.** On June 28, 2000, the City executed three-year contracts with three different contractors for roofing services on City facilities. The contracts provided that the services would be provided on an as-needed basis and that the City project manager would invite all three contractors to submit a firm-fixed lump sum

quote for each single project. That provision helps ensure that the City receives the services for the best price. One of the 20 sampled disbursements represented payment of \$10,700 for roofing repairs to a City airport building. For those repairs the City obtained a written quote from only one of the three contractors and obtained the services from that contractor based on that quote. Obtaining a quote from just one of the three contractors was in violation of contractual terms and also precluded the City from ensuring that the services were obtained for the best price. In response to our inquiry on this matter, Procurement Services staff indicated that this noncompliance resulted from employee oversight.

## ***Payroll Disbursements***

*We tested and/or analyzed  
salary payments to 57  
employees.*

Payroll disbursements represent payments to individuals for services performed as employees of the City. As of June 30, 2001, there were approximately 2,700 City employees working in authorized positions. Additionally, the City employs individuals in temporary positions. The number of temporary employees varies, but during peak work times of the year that number may reach or exceed 700.

We selected and tested a sample of 20 payroll disbursements totaling \$21,548. These 20 disbursements pertained to 20 employees, of whom 16 were in full-time positions and four were classified as temporary employees. Audit criteria applied to the payroll disbursements included, but was not limited to:

- verifying that the employees existed and were employed during the sampled pay periods,
- verifying that the employees' gross and net pay were properly authorized, calculated, and supported by appropriate leave and attendance records,
- verifying that payroll deductions were proper and supported by appropriate employee authorizations where applicable, and



- verifying that the disbursements were properly recorded in the financial records.

In addition to the test applied to those disbursements, we also performed various analyses of payroll disbursements. Specifically, we:

*Generally, controls were adequate and disbursements proper; however, some issues were identified.*

- analyzed the propriety of payments to 15 terminated employees,
- analyzed payments to 14 employees from more than one job position, and
- analyzed payroll checks paid to eight individuals that received more than the normal number of paychecks during the audit period.

In summary, we tested or analyzed salary payments for 57 employees. Overall, we found that the disbursements (1) were made to legitimate employees that were employed during the sampled pay periods, (2) were made in the proper amounts, (3) were authorized and supported by adequate documentation, and (4) were properly recorded in the financial records. However, as described in the following paragraphs, we noted exceptions relating to six of the 57 employees tested and areas where improvements should be made.

*Three employees were overpaid a total of \$1,057 due to clerical errors.*

**Due to clerical errors in entering information into the City's payroll system (PeopleSoft), three employees were overpaid a total of \$1,057.** In the first instance a police officer was overpaid \$606 for his education supplement during the period October 2000 through August 2001 when the monthly pay supplement of \$50 was inadvertently entered to be paid each biweekly pay period (i.e., should have been paid at a rate of \$50 each month but was instead paid at a rate of \$50 every two weeks). In the second instance, a terminated (deceased) employee's estate/beneficiary was paid for the employee's unused personal and sick leave twice. The first payment for that leave was made to the employee's estate the month

after her death. The second payment was made four months later to the employee's beneficiary. The overpayment, in the amount of \$382, apparently occurred when the department in which the employee worked attached a copy of the initial correspondence requesting the employee's estate be paid for unused leave to subsequent correspondence sent to the Payroll Section for a different purpose. Without realizing that the payment for the unused leave had already been made, Payroll Section staff inadvertently interpreted the correspondence as a request to pay the employee's estate for the unused leave. In the third instance, an employee who was enrolled in the City's health insurance plan was overpaid \$69 over six pay periods when the employee was inappropriately paid a supplement to which only employees not enrolled in the City's health insurance plan are entitled.

For the first two instances, the Payroll Section recouped (or started recouping) the appropriate amounts subsequent to our notification of these overpayments. Those amounts were/are being recouped from subsequent payroll disbursements to which the employee/beneficiary were/are entitled. For the third instance the applicable employee had terminated his employment with the City prior to our audit finding.

*Two employees were underpaid a total of \$573 due to clerical errors.*

**Due to clerical errors, two employees were underpaid a total of \$573.** In the first instance, an employee was not paid the correct amounts for overtime worked as provided by the Fair Labor Standards Act, because the employee's position had been misclassified in the City's payroll system for a 19-month period. That misclassification was detected and corrected by City staff. However, the Payroll Section was not notified and requested to reimburse the employee for the underpaid amounts that totaled \$366. In the second instance, when entering information to recover amounts overpaid to a retiring employee in the employee's last regular pay check, the Payroll Section improperly withheld \$207 too much. Subsequent to our notification of these underpayments, the Payroll Section reimbursed the applicable individuals the underpaid amounts.

*Leave charged for employee absences was not always correct.*

**The amount of leave charged to two employees for absences from work was not proper.** In the first instance a City department (Utility Business and Customer Services) misapplied the City leave policy and as a result an employee that should have been charged personal leave of 3.6 hours was only charged 2.2 hours. The employee worked less than 40 hours in the work week but claimed, and then charged some absences from work to, compensatory time for those hours worked that week that were in excess of 8 hours each day. That was contrary to City policy (Chapter 704.05 Personnel Policies and Procedures), which does not allow for compensatory time to be earned during a week until after 40 hours have been worked. In the other instance, an employee who took two hours compensatory leave during the sampled pay period was charged with four hours. This instance was the result of a clerical error by the applicable City department (Tallahassee Police Department) in which the same leave was mistakenly recorded twice into the City's personnel system (PeopleSoft).

*Authorizations for certain payroll deductions were not retained.*

**Employee authorizations documenting payroll deductions for parking privileges in City facilities were not retained for those City employees whose parking privileges had been terminated.** Employees that park in City facilities in proximity to City Hall (e.g., Kleman Plaza and City Hall) as well as the Gemini building sign authorizations for the applicable fees to be deducted from their salary payments. We noted that when an individual's employment is terminated and when an employee transfers to satellite work locations, such that they no longer park in those City facilities, the authorizations were discarded. The lack of such records precludes a verification that amounts deducted from employees' salary and wage payments are proper and authorized. Furthermore, not retaining such records was in violation of City record retention policy that require retention for two years after final action (e.g., termination of parking privileges) provided that applicable audits have been completed and the resulting reports issued. Subsequent to our inquiry on this matter, Building Services started retaining authorizations in accordance with those requirements.

## ***Retirement Benefit Payments***

Retirement benefit payments represent pension disbursements to retired employees and their designated beneficiaries/annuitants. This category also includes disability and pre-retirement benefits, which are paid to disabled employees or to employees' designated beneficiaries in the event an employee is disabled or dies while employed with the City.

*The City administers two basic types of pension plans.*

The City currently administers two basic types of pension plans on behalf of City employees. The first type is a defined benefit plan in which eligible retired (or disabled) employees and/or their beneficiaries receive a specified amount of pension benefits over a defined period of time (e.g., over the retired/disabled employee's and/or his/her spouse's lifetime). The amount of the benefit is based on factors including age, years of service with the City, compensation levels, and plan type (i.e., police officers, firefighters, or general employees). Currently, retirement benefits under the City's defined benefit plans are made to approximately 800 individuals.

The second type of plan administered by the City is a defined contribution plan. Under that plan, both the City and eligible employees contribute a specified amount (i.e., percentage of employees' pay) to individual investment accounts maintained by a contracted third party administrator on behalf of participating employees. The participating employees then select how those contributions will be invested within parameters established by the City and the administrator. How much is contributed by the City and the employee depends on the provisions of the applicable plan type (i.e., police officers, firefighters, or general employees) and the individual employee's decisions. The amount of retirement income generated from this plan for a retiring employee is determined based on the contributions and investment earnings that accumulate in that employee's account. Upon retirement, participating employees select among various options as to how those retirement benefits will be paid. Options range from a lump sum cash payment for

accumulated contributions and earnings thereon to an annuity paid over the lifetimes of the retiree and his/her beneficiary. Furthermore, for participating employees who meet certain eligibility criteria, (e.g., at least seven years of service with the City) and select certain payout options (e.g., structured payments over the employee's lifetime), the City will contribute an additional amount to the retiree's account at the date of retirement. That amount is 50 percent of the sum of: (1) all City contributions and earnings thereon and (2) all employee contributions at rates up to 5 percent of the employee's salary and earnings thereon. These "50 percent additional payments" are funded from a City account maintained at the third party administrator (Prudential). To ensure that sufficient funds will be available to fund those payments, the City makes biweekly payments into that account based on actuarial studies.

Contributions as well as retirement disbursements are governed by the approved City pension plans. Retirement benefit calculations under the defined benefit plan are made by retirement section staff within the Office of the Treasurer-Clerk. Those calculations are based on various factors and options specified in the City's approved pension plans and on records provided by the Human Resources Department and the Payroll Section within Accounting Services. Retirement benefit amounts under the defined contribution plans are based on payment options selected by the retiring employees and are calculated by the third party administrator, subject to reasonableness reviews by retirement section staff.

*We tested pension payments/contributions totaling \$559,979.*

For the retirement disbursements category, we selected and tested a sample of 10 payments (totaling \$291,656) made to retirees or their designated beneficiaries under the City's defined benefit plan during the period July 1, 2000, through June 30, 2001. In addition, we selected and tested the retirement calculations for and payments (totaling \$11,301) to six out of 102 individuals who retired under the City's defined benefit plan during that period. Furthermore, we tested two of the City's 26 annual contributions to Prudential for the purpose of funding the "50 percent additional payments" for eligible

employees participating in the City's defined contribution plan. (Those two payments totaled \$181,117.) And lastly, we tested the eligibility of and contribution amounts for three of 27 employees who received a "50 percent additional payment" during the period July 1, 2000, through June 30, 2001. (Those three payments totaled \$75,905.) Test criteria typically applied to these sampled transactions included the following:

- verifying that retirees had completed the minimum years of City service required to be eligible for retirement benefits (*defined benefit and defined contribution plan*),
- verifying that the pension/benefit payments were made in proper and accurate amounts based on the former employees' years of service, salary histories, pension plan types, payment options selected by the retirees, and other factors (*defined benefit plan*),
- verifying that amounts contributed to eligible retiring employees as "50 percent additional payments" were correct in amount and based on the proper factors (*defined contribution plan*),
- verifying that cost of living adjustments were properly determined and applied to retirement benefits (*defined benefit plan*),
- verifying that deductions from retirees' pension payments were authorized and proper, (*defined benefit plan*),
- verifying that benefit payments were made only to the eligible retirees/disabled employees or their designated beneficiaries/annuitants (*defined benefit and defined contribution plan*), and

*Overall, procedures were adequate and disbursements proper; however, certain issues were identified.*

- verifying that periodic payments to Prudential to fund the City’s “50 percent additional payment” account were correct in amount based on governing actuarial factors and other requirements (*defined contribution plan*).

Overall, we found that procedures and controls were adequate to ensure that retirement payments and contributions were made only to eligible individuals and in proper amounts. However, we noted the following areas where improvements should be considered.

*Certain language in the City’s pension plans needs to be revised to reflect the City’s intent and practice.*

**Language in the City’s pension ordinances needs to be revised to reflect the City’s intent and practice.** As noted in the following, clarifications are needed in two sections of the City’s pension ordinances established for the City’s defined benefit plans.

First section. The determination of a retiring employee’s pension payment is based, in part, on the salary earned by the employee. The pension payment to which an employee will be entitled will increase as his/her salary increases. Each of the City pension plans for the three basic classes of employees (general, police officers, and firefighters) provides that the salary earned during the retiring employee’s best “36-month period” should be used in the employee’s pension payment determination. The best 36-month period is defined as the higher of (1) the salary/compensation earned during the retiring employee’s final 36 months of employment or (2) the salary/compensation earned during any consecutive 36-month period escalated to the date of retirement at an annual rate of three percent. For example, the salary earned by an employee during a particular 36-month period worked several years prior to his retirement, when escalated to his retirement date at the rate of three percent, may be greater than the employee’s salary earned during his final 36 months of employment. In that circumstance, the escalated salary amount should be used in determining the employee’s pension payment.

Notwithstanding the above, the specific escalation language in the police officers and firefighters pension plans is different than the

escalation language for general employees. Specifically, for general employees the pension plan states that the amounts for any 36-month period are to be escalated from the end of that 36-month period to the date of retirement. However, for the police officers and firefighters plans, the escalation for any 36-month period is to be from the first October 1 after the end of that period to the last September 30 prior to the date of retirement. These differences in wording result in different escalation amounts. For example, given a retiring firefighter (or police officer) and a retiring general employee that earned the exact same salary during the same period, the general employee would receive a slightly higher escalation, and thus, a higher pension.

In our test we noted that a retiring firefighter's salary for his best 36-month period was escalated using the general employee's escalation provisions instead of the escalation provisions for police officers and firefighters. As a result, it appeared that his monthly pension payment was approximately \$95 greater than it should have been. However, in response to our inquiry, the retirement section stated that it was not the intent of the pension plans to provide police officers and firefighters different (lesser) escalations than general employees and, accordingly, the salaries of retiring police officers and firefighters had traditionally been escalated using the general employees' escalation provisions.

Subsequent to our inquiry, the retirement section proposed revisions to the City pension plans for police officers and firefighters that provide for salary escalations equal to those provided general employees. The City Commission adopted those revisions on September 26, 2001.

Second section. Section 14.322 "*Health care supplement; purchase of health care coverage*" as revised in City Ordinance No. 00-O-83 (effective December 13, 2000) provides, in part, that retirees who were initially hired under the provisions of the general employees Type B pension plan and subsequently transferred to the general employees Type C pension plan are eligible to receive a health care



supplement commencing at the earlier of two specified occurrences. Those two occurrences are (1) when the retired employee attains age 60 with at least seven years of City service and (2) when the retiree's age (in years) and number of years of City service total 90. In our tests we noted one new retiree who had been hired under Plan B and then transferred to and retired under Plan C. Since the individual had at least seven years of service with the City, it appeared that the retiree should commence receiving the health care supplement upon attaining the age of 60 years. However, we noted the retirement section had set up this retiree to commence receiving the health care supplement at age 62 years.

In response to our inquiry on this matter, retirement section staff indicated it was not the intent of City Ordinance No. 00-O-83 to provide "all" retiring general employees, who had transferred from the Type B plan to the Type C plan, the health care supplement at the earlier of the two described occurrences. Instead, the retirement section stated that only those retiring employees meeting the above-described criteria and also retiring under Plan B provisions as allowed under Plan C provisions (i.e., opposed to retiring under "normal" Plan C provisions) were eligible to receive the health care supplement at age 60 years if they had at least seven years City service. For those employees that transferred from Plan B to Plan C and then retiring under "normal" Plan C provisions, retirement section staff indicated that the intent was to provide the health care supplement based upon occurrences other than those described above (e.g., age 62 with at least five years of City service).

After discussions of this matter, the retirement section indicated that language changes would be proposed to clarify the intent of the ordinance. To reduce the City's potential liability over this issue, we recommend that this action be taken in a timely manner.

*One of the City's pension investment accounts was not being properly or timely reconciled.*

**Reconciliations were not done for activity in the City's account maintained at Prudential for the purpose of funding the "50 percent additional payments" under the defined contribution program.** The amount of City funds maintained in that account

approximates \$40 million. During the period covered by our audit, neither the Treasurer-Clerk's Office nor Accounting Services reconciled activity per the quarterly statements sent by Prudential reflecting account activity to (1) the periodic wire transfers made to Prudential by the Treasurer-Clerk's Office or (2) the payouts from that account as requested by the retirement section staff. Such reconciliations are essential to ensure that City funds are properly deposited into that account and that all deductions from that account are for authorized purposes. To ensure appropriate segregation of duties, the reconciliations should be done by Accounting Services, which is independent of the disbursement function. At the time of our fieldwork in August 2001, Accounting Services staff was initiating a process to monitor and reconcile activity recorded on the Prudential statements to amounts requested as payouts by retirement section staff. However, that process did not provide for reviewing the Prudential statements for the purpose of ensuring that wire transfers of City funds were properly deposited into that account. In discussions on this matter, Accounting Services and Treasurer-Clerk's staff agreed that complete and independent reconciliations were necessary. Subsequent to our inquiry, complete reconciliations were initiated by Accounting Services staff.

## ***Energy Purchases***

*We tested energy purchases totaling in excess of \$17 million.*

The City purchases both (1) natural gas and other source fuels to generate power and to supply customers (i.e., natural gas) and (2) generated power. The purchases of natural gas and source fuels are made by Energy Services staff located in the Gemini Building. The purchases of generated power are made both by Energy Services staff located in the Gemini Building (purchases for a day or more) and Electric Operations staff at the electric system control center on Van Buren Street (hourly purchases).

Purchases of natural gas and other source fuels by staff at the Gemini Building are done both through long-term and short-term contracts with energy companies/suppliers. The long-term contracts are for multiple years and require the purchase of

minimum/maximum volumes of source fuel at contractually established prices. The short-term contracts range from daily deals to monthly agreements. For those deals City staff negotiate and “shop” the open market to obtain the best prices for the City.

Purchases of generated power are made when the City’s demand exceeds what is being produced at the City’s power plants and when available information shows that generated power can be purchased from an external source cheaper than being generated by the City. Purchases of generated power are generally made from other utilities and independent power producers or through contracted power brokers.

In connection with our audit we selected a sample of 10 energy purchases totaling \$17,095,499. Test criteria applied to these sampled transactions included the following:

- verifying that prices paid were in accordance with contractual and other governing terms and conditions,
- verifying that contractually-required quantities and volumes were acquired,
- verifying that controls existed to ensure that quantities purchased were received,
- verifying that payments were timely, and
- verifying that the purchases were adequately supported and properly recorded in the City’s financial records.

*Generally, disbursements were proper and controls adequate; however, one issue was identified.*

Our tests showed that controls were generally adequate to ensure that disbursements for energy were appropriate. However, as described in the following we noted where improvements should be made.

*Documented confirmations of certain purchases were not obtained.*

**Written/documented confirmations were not obtained from all vendors substantiating the agreed-upon purchase prices, thereby limiting the City's ability to successfully settle any pricing disputes that could result upon receipt of monthly invoices from the applicable vendors.** For purchases made by staff of the electric operations control center and for open market daily purchases made by staff at the Gemini Building from two energy suppliers (purchases made from six suppliers were tested), no written or documented confirmations were obtained to substantiate the verbal deals and related terms/conditions (e.g., prices). The vendors in these circumstances submitted monthly invoices to the City. Staff of the electric operations control center stated that in the event of a pricing dispute, resulting when the price recorded by the staff consummating the verbal deal differs from the price charged on the vendor's monthly invoice, the disputed amounts were resolved through discussions and negotiations with the vendor. Staff of both the Gemini Building and the control center indicated that such disputes were generally minor, occurred seldom, and were always successfully resolved. Notwithstanding those indications, management of the Energy Services Department agreed that written confirmations would be appropriate under the described circumstances.

For the applicable purchases made at the Gemini Building, Energy Services indicated that written confirmations would now be obtained from the two vendors for daily open market deals. In regard to the purchases at the control center, Electric Operations had already initiated actions to resolve this issue prior to our audit inquiry. Specifically, because it was determined that written confirmations for each verbal deal consummated over the telephone would not be feasible due to the large amount of activity and other functions that staff must perform and monitor on an on-going basis, budgetary approval has been obtained to acquire a system that, among other things, will capture all phone conversations between control center staff and energy suppliers. When implemented, this

system should enhance the City's process for resolving disputes as to prices and quantities of purchased power.

## Capital Outlay Purchases

*We tested six capital outlay purchases totaling \$3.5 million.*

Capital outlay disbursements represent funds paid to construct or acquire buildings, property, vehicles, and equipment. Capital outlays are often accounted for in projects. We selected and tested six capital outlay disbursements totaling \$3,516,801. The sampled outlays were for computers, property, copiers, a new fire truck and related accessory equipment, and new Taltran buses. Audit criteria applied to these outlays included, but was not limited to:

- determining if the purchased assets were properly recorded in the City's financial records and fixed asset records,
- determining if the disbursements were properly supported, approved, and for a purpose beneficial to the City,
- verifying that appropriate procurement practices were followed,
- verifying that payments were in accordance with contractual terms and conditions,
- verifying that cash discounts were taken when available, and
- verifying that the payments were timely.

*Except for one instance, controls were adequate and disbursements proper.*

Except for the one instance noted below, we found that the sampled disbursements were made in accordance with the described criteria and otherwise appropriate and proper.

*The City did not receive a \$711 discount to which it was entitled.*

**A discount was not granted to the City on the payment made for fire truck accessories; as a result, the City paid \$711 more than required pursuant to governing contractual provisions.** In December 2000 the City received a new fire truck and related equipment purchased from a vendor (Emergency One, Inc.) pursuant to a price agreement (contract). Based on the vendor invoice the cost of the fire truck was \$736,330 and the cost of the

equipment was \$142,308. The terms and conditions of that agreement specifically stated that a discount of ½ of one percent would be provided the City if full payment was made within 10 days of shipment from the vendor. The fire truck and equipment and related invoice were received and the payment to the vendor made in early December (i.e., payment was within 10 days of shipment). While the vendor included the contractual discount on the fire truck in the invoice, no such discount was included for the equipment. The City paid the invoiced amount. As a result, the City paid \$711 more than required.

### ***Risk Management Disbursements***

*We tested eight  
disbursements totaling  
\$1.1 million.*

Risk management disbursements represent the payments generated by the Risk Management Section within the Treasurer-Clerk's Office and/or the City Attorney's Office. Examples include payments out of the City's self-insurance funds on general liability claims and worker's compensation claims and payments of premiums for insurance coverage. Fees paid to third-party administrators and to applicable State agencies were also included in this disbursement population. We tested a sample of eight disbursements totaling \$1,145,736. Audit criteria applied to these disbursements, included:

- verifying the payments were supported by appropriate documentation such as claim and event records,
- verifying the payments were approved by applicable staff,
- verifying the payments were in accordance with applicable policy and procedures, and
- verifying the payment was properly recorded in the City's financial records.

*No issues were identified  
or exceptions noted.*

Our review of the sampled payments showed no exceptions to these criteria. No control deficiencies were noted.

***Petty Cash  
Disbursements***

The Revenue Office within City Hall operates an imprest fund (petty cash fund) to reimburse City employees for authorized out-of-pocket expenses incurred for City business. Common examples of expenses reimbursed from that fund include food for authorized City functions and miscellaneous office and work supplies. To receive reimbursement from the petty cash fund City employees are required to complete a standard form that is approved by appropriate managerial staff within their department. Vendor receipts or other documentation substantiating the expense was incurred must accompany each reimbursement request. Reimbursements are generally limited to no more than \$150. Requests for reimbursements greater than \$150 must be approved by the Treasurer-Clerk.

*We tested 50 petty cash disbursements totaling \$3,400.*

As part of our audit we reviewed 50 disbursements from the petty cash fund totaling \$3,400.25. Criteria applied to those sample disbursements included, but were not limited to:

- verifying the related expenses were incurred for authorized and necessary City business,
- verifying appropriate support was available to substantiate the expenses were incurred,
- verifying that appropriate approvals were obtained and documented,
- verifying that City procurement requirements and practices were not circumvented, and
- verifying the disbursements were properly coded for entry into the City's financial records.

*Sampled disbursements were generally proper and for City business. However, enhancements are needed to assure such disbursements are properly authorized, recorded, and in accordance with governing laws and City policy.*

**Sampled disbursements were generally supported and for authorized City business.** Except for one disbursement of \$19.45 to reimburse an employee of Building Services for a food blender and gift bag used as door prizes in an International Executives Housekeeping Association meeting held in City Hall, all sampled disbursements appeared to be for authorized City business and made to serve a public purpose. (The public purpose of the \$19.45 disbursement was not identified and documented.) In addition, vendor receipts and support were available to substantiate all sampled disbursements other than one food purchase of \$13.49.

**Controls need to be strengthened to provide appropriate assurance that petty cash disbursements are approved by authorized managerial staff.** We determined that the Revenue Office does not maintain a list of employees from each City department who are authorized by management of those departments to approve petty cash reimbursement requests. The lack of such a list limits the ability of Revenue Office staff to ensure that the reimbursement requests have been appropriately approved and authorized. In our tests we found that in 32 of the 50 sampled disbursements the approving employee was not the department head. Furthermore, for 13 of those 32 instances the approving employee was not in a supervisory or managerial position.

**Documentation (e.g., vendor receipts) supporting petty cash reimbursement requests was not cancelled by Revenue Office staff after reimbursement was made to the employees.** Not canceling that documentation increases the risk that it will be resubmitted (intentionally or unintentionally) for another reimbursement. The Revenue Office should consider marking vendor receipts and similar support with a "PAID" stamp or otherwise canceling those records.



**The Revenue Office should consider replenishing petty cash funds through the Accounts Payable section and not through current day revenues and receipts collected by the Revenue Office.** Under current procedures, the Revenue Office replenishes cash disbursed from the petty cash fund from the collections taken in through the Revenue Office teller windows. The Revenue Office properly reflects the petty cash disbursements and replenishments on the daily cash reports submitted to Accounting Services for entry into the City's general ledger records. While this process provides for accountability of the petty cash disbursements and the replenishment of disbursed petty cash, it also is contrary to good internal control practices. Specifically, that process (1) does not provide for intact deposit of daily collections and (2) limits the review of petty cash disbursements to the Revenue Office. Because the primary function of the Revenue Office is not disbursement of City funds, it could be considered more appropriate for the petty cash fund to be replenished through periodic requests submitted by the Revenue Office to the Accounts Payable section (whose primary function is disbursement of City funds). Under that scenario, each replenishment request submitted by the Revenue Office would be for the amount of petty cash disbursed and would be accompanied by the documentation (e.g., vendor receipts) supporting the individual disbursements.

**Controls appear to have been circumvented in two instances.** As addressed above, written procedures established by the Revenue Office limit any one reimbursement to a maximum of \$150. The Treasurer-Clerk must approve any reimbursement exceeding that amount. In our testing we identified two instances where purchases by an employee of the Energy Services Department appeared to circumvent those procedures. In the first instance, the employee made five separate purchases of office supplies

from the same vendor, for amounts ranging from \$69.66 to \$147.54, within a time span of 4½ hours. Four of those five purchases were made in a span of nine minutes. In the second instance, the employee made two separate purchases of office supplies from the same vendor, in amounts of \$91.86 and \$105.34, over a three-minute period.

While each of the seven purchases was approved in accordance with established written procedures and appears to be for valid and necessary purposes, the disaggregating of the purchases resulted in the by-passing of approval by the Treasurer-Clerk and, therefore, appears to have violated the intent of those established procedures.

**Items were not always properly coded for entry into the City’s financial records.** We noted that in eight of the 50 sampled purchases the transactions were coded as “unclassified supplies” when they should have been coded as either “food purchases,” “postage,” or “uniforms and clothing.” These eight instances related to reimbursement requests of Taltran (six instances), Utility Business and Customer Services, and Water Utilities. Such purchases should be coded to the most appropriate categories to ensure proper reflection in the financial records for managerial and budgetary considerations.

**Although exempt from sales taxes, the City often paid such taxes in connection with petty cash purchases.** As a unit of government, the City is exempt by State statutes from sales taxes. However, in 18 of the 50 reimbursements tested, the City reimbursed the applicable employees for sales taxes paid for the purchased items. These sales taxes totaling \$71.92 were paid because the vendor was not aware of or did not acknowledge the exemption as the employee was making the purchase using personal resources. Had the purchases been made through the City’s normal procurement processes (i.e., using an approved City purchase card or requisitioning

*The Revenue Office should consider revising current procedures to encourage the purchase of goods through the City's normal procurement processes and to further limit petty cash reimbursements.*

goods through the PeopleSoft financial management system), these sales taxes would not have been paid.

Because of the large volume and amount of transactions processed through the Revenue Office petty cash fund (\$43,668 during the one-year period July 1, 2000, through June 30, 2001) and the findings noted above, consideration should be given to revising current procedures. Such revisions should be made to encourage the purchase of goods and services through the City's normal procurement processes (i.e., City purchase cards or through the PeopleSoft financial management system) and to limit the Revenue Office's role in the disbursement of City funds. Potential revisions include:

- Lowering the threshold for petty cash reimbursements from \$150 to a smaller amount (e.g., \$25 or \$50).
- Eliminating the ability to obtain reimbursements for requests greater than the established threshold upon approval from the Treasurer-Clerk.
- Decentralizing the petty cash process by providing outlying departments (i.e., outside of City Hall such as the Electric power plants, Municipal Complex, and Parks and Recreation) their own petty cash funds such that the Revenue Office only reimburses requests for employees/departments located in City Hall.
- Replenishing disbursed funds through requests of the Accounts Payable section.
- Limiting department approval authority for petty cash disbursements to the department head and one other managerial/supervisory employee designated by the department head.

## Data Mining Activities

*Various data mining techniques were completed.*

*Data mining procedures applied to expenditures totaling \$839 million over a 21-month period disclosed an apparent 276 duplicate payments. These apparent duplicate payments totaled over \$340,000 and were made to 128 vendors.*

In addition to traditional transaction sampling and testing, we completed certain analyses of City disbursement transactions. These analyses included “data mining” procedures. Data mining involves the review of entire transaction populations for the purpose of identifying abnormal trends or unusual transactions that are likely to represent errors or violations of City policies or good business practices. Data mining techniques have been made possible by the advanced technologies in computer hardware and software. One of the data mining techniques applied was a review to identify duplicate payments. That procedure consisted of matching all payments recorded in the City’s financial management system with the same (1) vendor number, (2) invoice number, and (3) amount. This analysis was conducted for the audit period (7/1/00 through 6/30/01) as well as the 6-month period immediately preceding and the 3-month period following that 12-month audit period. City disbursements reviewed for duplicate payments during that 21-month period totaled approximately \$839 million.

**Over \$340,000 in apparent duplicate payments were made during the 21-month period January 1, 2000, through October 8, 2001.** Our review for duplicate payments identified a total of 276 apparent instances where records indicate that a vendor was paid twice for goods or services. These 276 apparent duplicates involved 128 vendors and 19 City departments/offices. They were comprised of the following:

- 154 instances totaling \$279,306 during the 12-month period July 1, 2000, through June 30, 2001,
- 81 instances totaling \$23,356 during the 6-month period January 1, 2000, through June 30, 2000, and
- 41 instances totaling \$40,304 during the period July 1, 2001, through October 8, 2001. Many (at least 31) of these 41 instances occurred subsequent to the City’s conversion to the new PeopleSoft Financial Management System (FMS) on July 3, 2001.

Lists of these apparent duplicate payments were provided to the Accounts Payable Section within the Department of Management and Administration and the Fleet Management Division within the Public Works Department (i.e., 51 of the apparent duplicate payments pertained to Fleet). As of November 8, 2001, those departments were still researching the lists for purposes of verifying that the items were in fact duplicate payments and recovering amounts from vendors. An Accounts Payable status report as of that date, which addressed 74 of the apparent duplicates that pertained to 22 vendors, indicated the following:

- For one of the duplicate payments, in the amount of \$182,020, the applicable vendor detected and reimbursed the City for the overpayment within a month of the duplicate payment. This payment pertained to the Electric Operations department.
- For six of the duplicates pertaining to four vendors and totaling \$67,861, City staff detected and recovered the overpayments prior to our initial inquiry in September 2001. Three of these seven duplicates totaling \$67,288 were detected by staff of the applicable departments (i.e., Aviation and Information Systems Services) when reviewing payment activity several months (i.e., ranging from 1½ to 5 months) subsequent to the duplicate payments.
- For 47 of the duplicates, all made to one vendor on the same date (May 11, 2001) and totaling \$6,329, Accounts Payable staff identified the duplicates a week later (May 18, 2001) and notified the vendor. As of November 8, 2001, the City had not obtained evidence that these overpayments had been recovered.
- For eight of the duplicates, pertaining to seven vendors and totaling \$5,155, the duplicates were not identified by

City staff prior to our inquiry. However, City staff has subsequently recovered those overpayments.

- For three of the duplicates, pertaining to three vendors and totaling \$2,536, the duplicates were not identified by City staff prior to our inquiry. However, City staff has subsequently obtained commitments from the vendors to refund the overpayments.
- For nine of the duplicates, pertaining to seven vendors and totaling \$2,065, the duplicates were not identified by City staff prior to our inquiry. City staff are investigating those payments to determine why the duplicates occurred and/or whether the amounts had been recovered.
- In addition to the above, the Accounts Payable status report provided evidence that three additional items on the initial duplicate payment lists (not included in the 276 instances noted above) were not duplicate payments.

Based on discussions with staff of Accounting Services, the Treasurer-Clerk's Office, and the Department of Management and Administration, these apparent duplicate payments were primarily attributed to the following:

- Vendors submitted duplicate invoices for goods and services to the City (e.g., one to Accounts Payable and another one to the applicable City department). For some of those instances, a second invoice (for a given purchase) was processed and paid by Accounts Payable staff after a first invoice had already been processed/paid. For those instances, Accounts Payable staff processed and paid the second invoice without checking to see if the invoice had already been paid. This especially occurred when an "original" invoice was received directly by Accounts Payable staff after a "copy" (or another "original") had been received, approved, and forwarded to Accounts Payable for payment processing by the applicable City

department. Because the invoice received by Accounts Payable staff was an “original,” they did not check to see if a payment had already been made against that invoice.

- Departments submitted duplicate pay requests for the same invoice or goods/services.
- Lack of familiarity by Accounts Payable staff with payment histories of vendors.
- The duplicate payment indicator feature of the new PeopleSoft Financial Management System (FMS) was rendered ineffective as incorrect data (i.e., invoice dates) was entered into the system, thereby eliminating the system capability to identify duplicate payments.

To address these concerns the Department of Management and Administration indicated the following actions would be taken:

- Reinforce the requirement of Accounts Payable staff to verify and document that the history of each invoice received for processing was researched to ensure that payment had not been made previously.
- Reorganize staff assignments within Accounts Payable to increase staff familiarity with vendor payment histories.
- Make the PeopleSoft FMS duplicate payment indicator an effective tool by reducing the amount of data required to detect potential duplicates.
- Provide City departments training on the examination of vendor payment histories within the PeopleSoft FMS prior to submission of pay requests to Accounts Payable for processing (e.g., individual departments have research capabilities to identify and detect duplicate pay requests within the new system).

*During the implementation phase of the City's new financial management system, timely action was not always taken to delete detected duplicate payments from the accounting records.*

In addition to the above, we identified 15 instances where the City's PeopleSoft FMS reflects duplicate payments totaling \$827,123, although duplicate payments were not sent to the applicable vendors. In each of these instances, City staff identified and stopped the duplicate payments. However, as of the date of our audit fieldwork in early October 2001, Accounts Payable staff had not deleted those duplicates from the PeopleSoft FMS. The lack of timely action to delete those items will result in reconciling items (out-of-balance conditions) in the City's accounts. These instances were attributable to difficulties encountered by the City during the process of transitioning to the PeopleSoft FMS.

## **Recommendations**

To reduce the risk of subsequent improper disbursements and to ensure that such disbursements are made only for authorized purposes and in accordance with established laws, rules, and procedures, certain corrective actions should be taken. Recommendations developed in conjunction with applicable department management are presented below.

*Recommended actions in regard to general disbursements.*

Actions that should be taken in regard to general disbursements include:

- Accounts Payable staff should recover the overpayments made to the vendor providing dumpster rental services.
- DMA staff should continue efforts to ensure City staff are trained in the proper purchasing and processing of invoices through the PeopleSoft FMS.
- Management of Streets and Drainage should reinforce to applicable employees the importance of timely entering information into the financial management system.
- The Fire Department should assign responsibility for timely processing of invoices to alternate staff when employees normally assigned that function are on leave.



- Staff of the Aviation department and Procurement Services should be reminded of the requirements to comply with contractual terms and conditions when acquiring goods and services.

*Recommended actions in regard to payroll disbursements.*

Actions that should be taken in regard to payroll disbursements include:

- DMA staff should develop and make available to the Payroll Section appropriate queries of the PeopleSoft Human Resources Management System that identify (1) instances where terminated employees receive more than one payment for unused leave, (2) instances where an employee is receiving pay supplements intended for employees not enrolled in the City's health insurance plan when the employee is enrolled in that plan, and (3) instances where pay supplements to police officers are higher than expected.
- Utility Business and Customer Services management should provide training to employees regarding the City's policy for earning and using compensatory leave.
- Tallahassee Police Department staff should continue efforts to monitor leave and payroll data entered into the PeopleSoft system.
- Building Services should retain authorizations for payroll deductions for the required retention period.

*Recommended actions in regard to retirement benefits.*

Actions that should be taken in regard to retirement benefits include the following:

- The retirement section within the Office of the City Treasurer-Clerk should initiate appropriate revisions to existing pension plan provisions to reflect the City's intent and practice.
- Accounting Services should timely complete quarterly reconciliations of the City's account maintained at

Prudential for the funding of “50 percent additional payments” payable to eligible employees under the City’s defined contribution plan.

*Recommended actions in regard to energy purchases.*

Actions that should be taken in regard to energy purchases include:

- The Energy Services Department should obtain written confirmations from all vendors to substantiate agreed-upon purchase terms and conditions (e.g., prices) for short-term deals made by staff in the Gemini Building.
- Electric Operations should continue plans and efforts to implement a system at the electric operations control center that, among other things, will capture all verbal communications for energy purchases consummated over the telephone.

*Recommended actions in regard to capital outlays.*

Actions that should be taken in regard to capital outlay disbursements include:

- The Fleet Division should make appropriate efforts to recover the \$711 from the applicable vendor for the discount authorized but not included on the vendor’s invoice.
- Fleet management should reinforce to applicable staff the importance of ensuring payments are in accordance with contractual terms and conditions.

*Recommended actions in regard to petty cash disbursements.*

Actions that should be taken in regard to petty cash disbursements include:

- The Revenue Office should revise existing procedures to further limit petty cash disbursements and to encourage purchases using approved City purchase cards or through the requisitioning process within the PeopleSoft FMS.
- The Revenue Office should require applicable City departments and offices to provide a list of their employees authorized to approve reimbursement requests. Those lists

should be updated as employee assignments change. These requirements should be incorporated into existing written procedures.

- The Revenue Office should cancel payment support upon reimbursement to employees.
- The Revenue Office should consider replenishing disbursed petty cash funds through the submission of periodic requests to the Accounts Payable section.
- The Energy Services Department should reinforce the intent of established petty cash procedures to staff.
- The importance of properly coding petty cash reimbursement requests should be reinforced to staff responsible for authorizing petty cash reimbursements at Taltran, Utility Business and Customer Services, and Water Utilities.

*Recommended actions in regard to duplicate payments.*

Actions that should be taken in regard to duplicate payments disclosed by data mining include:

- Accounts Payable (AP) management should provide training to AP staff regarding awareness for potential duplicate vendor invoices. Furthermore, reorganization of staff work assignments should be considered to increase the identification of duplicate invoices.
- Department of Management and Administration (DMA) staff should revise the PeopleSoft FMS duplicate payment indicator to make it an effective tool.
- DMA staff should develop and run queries of the PeopleSoft FMS periodically to identify duplicate payments such that timely corrective action can be taken.
- DMA staff should include in its PeopleSoft training provided to department employees: (1) an identification of

the risks of duplicate payments and (2) procedures that can be used by department staff to determine if a pay request is a duplicate.

- Accounts Payable staff should make timely notifications to appropriate staff to eliminate payments entered into the PeopleSoft FMS that are subsequently determined to be duplicates and cancelled prior or subsequent to issuance.

### ***Conclusion***

It is our opinion that, overall, City disbursements during the period July 1, 2000, through June 30, 2001, were (1) for authorized and necessary purposes; (2) made in accordance with established laws, rules, and procedures; (3) supported by appropriate documentation; and (4) properly recorded in the City’s financial records. Given the complexities and diversity of City business, we commend City staff for their efforts in ensuring that disbursements of City funds were proper. Notwithstanding those efforts, there are areas where significant improvements should be made to ensure City funds are expended properly and in compliance with governing laws, rules, and procedures. We would like to acknowledge the full and complete cooperation and support of applicable City staff during this audit.

### ***Response From Appointed Officials***

#### **City Manager:**

I am pleased to see that the recent audit of citywide disbursements indicated that, overall, disbursements were proper, authorized, supported, accurately recorded, and made in accordance with established laws, rules and procedures. I appreciate the thoroughness and professionalism of the City Auditor’s staff in conducting this review as we strive to ensure that all funds are disbursed properly. In all cases where concerns were pointed out, staff is already in the process of addressing those concerns.

**City Treasurer-Clerk:**

I concur with the recommendations made in the Audit of Citywide Disbursements-2001 relative to the Treasurer-Clerk's Retirement and Revenue Divisions. I am very pleased that you found that the Retirement Division had controls in place to ensure that retirement payments and contributions were made only to eligible individuals and in proper amounts. The Retirement Division will implement the audit recommendation to provide language to clarify City Ordinance 00-0-83.

I have reviewed the audit recommendations for modifications to the City's existing petty cash procedures with the Revenue Division staff, and we agree that the recommendations will result in a more efficient and effective petty cash process. The Revenue Division is now in the process of implementing the recommendations. I commend you and your staff for the professional and thorough manner in which the disbursement review was conducted.

Copies of this audit report #0212 (project #0115) may be obtained from the City Auditor's web site (<http://talgov.com/citytlh/auditing/index/html>), by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail ([dooleym@talgov.com](mailto:dooleym@talgov.com)).

Audit conducted by:  
Bert Fletcher, CPA, Audit Manager  
Jim Carpenter, Audit Manager  
Dennis Sutton, CPA, Senior Auditor  
Sam M. McCall, CPA, CIA, CGFM, City Auditor

## *Appendix A - Action Plan*

Action Steps	Responsible Employee	Target Date
<b><i>A. Accounts Payables</i></b>		
1. Recover funds from applicable vendors for those duplicate payments identified by the audit.	Cathy Kilpatrick	9/30/02
2. Reorganize staff assignments to increase familiarity with specific vendors thereby increasing the likelihood of recognizing and identifying duplicate invoices.	Cathy Kilpatrick	9/30/02
3. Hold training sessions with staff that provide an understanding of the risks and potential for duplicate payments.	Cathy Kilpatrick	9/30/02
4. Take appropriate action to stop disbursements of funds or recover funds based on the results of the queries run pursuant to step B.2.	Cathy Kilpatrick	9/30/02
5. For payments determined to be duplicates (1) before the checks are generated or issued or (2) after the checks are issued but before they are paid by the City's bank, action will be taken to eliminate the payments from PeopleSoft FMS on the same day that the cancelled checks/stop payment notices are received in Accounts Payable.	Cathy Kilpatrick	9/30/02
6. Recover the overpayments made to the vendor providing dumpster rental services.	Cathy Kilpatrick	1/14/02
<b><i>B. Department of Management and Administration</i></b>		
1. Revise the PeopleSoft duplicate payment indicator such that duplicates are identified on the following three factors: (1) amount, (2) vendor number, and (3) invoice number.	Cathy Kilpatrick	10/25/01
2. Develop and run queries at least monthly to identify duplicate payments in the PeopleSoft FMS. Provide results of those queries to Accounts Payable.	Sharon Washington	9/30/02
3. Include in PeopleSoft training sessions (1) the risks for duplicate payments and (2) procedures department staff can use to detect duplicate pay requests prior to submission of pay requests to Accounts Payable.	Cathy Kilpatrick	9/30/02

<p>4. Develop queries of the PeopleSoft Human Resources Management System (HRMS) that identify (1) instances where terminated employees receive more than one payment for unused leave, (2) instances where employees enrolled in the City’s health insurance plan receive pay supplements intended for employees not enrolled in that plan, and (3) police officers and investigators receive pay supplements in amounts above a pre-established threshold.</p>	<p>Dianna Williams</p>	<p>9/30/02</p>
<p>5. Provide supplemental training to City departments and offices determined to have difficulties in properly processing invoices under the PeopleSoft FMS.</p>	<p>Cathy Kilpatrick</p>	<p>9/30/02</p>
<p><b>C. Accounting Services</b></p>		
<p>1. Run the PeopleSoft HRMS queries developed pursuant to step B.4 above for each pay cycle prior to disbursement of payroll funds.</p>	<p>Dianna Williams</p>	<p>9/30/02</p>
<p>2. Take appropriate action as the result of those queries (step C.1) to preclude or recover unauthorized disbursements of funds.</p>	<p>Dianna Williams</p>	<p>9/30/02</p>
<p>3. Complete timely reconciliations of quarterly Prudential statements reflecting activity in the City’s investment account maintained for “50 percent additional payments” under the defined contribution plan. “Timely” for purposes of these reconciliations means no later than 30 days subsequent to the date of receipt of the quarterly statement. “Complete” for purposes of these reconciliations means that (1) all disbursements of funds reflected on the statements will be reconciled to evidence of retirement section authorizations, (2) all wire transfers into that account based on City Treasurer-Clerk’s records will be traced to the statements, and (3) all reconciling items/issues will be resolved within 45 days of receipt of the statement.</p>	<p>Dianna Williams</p>	<p>9/30/02</p>
<p><b>D. Aviation Department</b></p>		
<p>1. Hold training sessions with applicable staff that provide an understanding of terms and conditions of agreements for contractual services.</p>	<p>Clara Tait</p>	<p>9/30/02</p>

<b><i>E. Procurement Services</i></b>		
1. Hold training sessions with staff reinforcing the significance of ensuring compliance with contractual terms and conditions and competitive procurement practices.	Cathy Kilpatrick	9/30/02
<b><i>F. Streets and Drainage</i></b>		
1. Hold training sessions with applicable staff reinforcing the necessity of timely recording of acquisition data (e.g., purchase and receipt of goods and services) into the PeopleSoft FMS.	Edgar Grant	2/15/02
<b><i>G. Fire Department</i></b>		
1. Assign responsibility for timely processing applicable invoices to alternate staff when employees who normally perform that function are on leave.	Capt. Dennis Vickers	1/23/02
<b><i>H. Utility Business and Customer Services</i></b>		
1. Hold training sessions with applicable staff to address the requirements for earning and using compensatory leave.	John Pellino	2/28/02
2. Hold training sessions with staff authorized to approve petty cash reimbursement requests that address proper coding of those requests.	John Pellino	2/28/02
<b><i>I. Building Services</i></b>		
1. Establish a process to retain employee authorizations to withhold parking fees from salary disbursements in accordance with City record retention requirements.	Dana Morgan	11/30/01
<b><i>J. Retirement Section</i></b>		
1. Complete revisions of language in the City's defined benefit pension plans as addressed in the audit report to reflect City intent and practice.	Steve Chase	6/30/02
<b><i>K. Electric Operations</i></b>		
1. Complete acquisition and installation of recording system at the electric operations control center that will capture all phone conversations between control center staff and energy suppliers.	Rusty Edenfield	4/30/02



<b><i>L. Energy Services</i></b>		
1. Obtain written confirmations from all vendors for open market purchases consummated over the telephone by staff at the Gemini Building.	P. McCullers P. Alley R. McDonald	2/1/02
2. Hold training sessions with applicable staff addressing the requirements and intent of thresholds established for petty cash purchases.	J. Rogan V. Thompson P. Alley	3/1/02
<b><i>M. Fleet</i></b>		
1. Make efforts to recover the \$711 discount not received from the applicable vendor.	Edgar Grant	2/15/02
2. Hold training sessions with staff stressing the importance of ensuring that payments are made in accordance with contractual terms and conditions.	Edgar Grant	2/15/02
<b><i>N. Revenue Office</i></b>		
1. Revise existing written procedures for petty cash to limit individual reimbursements to \$50 or less.	Darrell Thompson	6/30/02
2. Revise existing written procedures to no longer allow reimbursements of requests greater than the established threshold upon approval by the Treasurer-Clerk.	Darrell Thompson	6/30/02
3. Decentralize the petty cash reimbursement process by establishing a separate imprest cash fund in each major outlying location.	Darrell Thompson	9/30/02
4. Based on the decentralization (see step N.3. above), limit petty cash reimbursements by the Revenue Office to departments and offices located in City Hall.	Darrell Thompson	9/30/02
5. Revise existing written petty cash procedures to limit department approval authority to the department/office head and one managerial employee designated by the department/office head.	Darrell Thompson	6/30/02
6. Revise existing written procedures for petty cash disbursements to require all City departments and offices located in City Hall to provide the names and signatures for their department head and the managerial employee designated to approve reimbursement requests. Those procedures will provide instructions for updating those lists as employee assignments change.	Darrell Thompson	6/30/02

7. Distribute written procedures for petty cash reimbursements as revised pursuant to the above steps to all City departments and offices.	Darrell Thompson	9/30/02
8. Mark "PAID" or otherwise cancel documentation (e.g., vendor receipts/invoices and reimbursement request forms) supporting petty cash reimbursements upon reimbursement to the employee.	Darrell Thompson	6/30/02
<b><i>O. Taltran</i></b>		
1. Hold training sessions with staff authorized to approve petty cash reimbursement requests to address proper coding of those requests.	Al Menendez	2/8/02

## *Appendix B - Duplicates By City Department/Office*

	<b>DEPARTMENT/OFFICE</b>	<b>NO.</b>	<b>AMOUNT</b>
1	AVIATION	5	\$22,456.86
2	ELECTRIC OPERATIONS	37	\$195,710.95
3	ENERGY SERVICES	3	\$2,100.00
4	FIRE	2	\$873.73
5	GAS OPERATIONS	4	\$784.93
6	GROWTH MANAGEMENT	1	\$29.70
7	LEGAL	1	\$97.50
8	MANAGEMENT AND ADMINISTRATION	17	\$54,449.04
9	NEIGHBORHOOD AND COMMUNITY SERVICES	8	\$5,531.76
10	ORGANIZATIONAL SUPPORT	4	\$777.60
11	PARKS AND RECREATION	5	\$669.60
12	PLANNING	1	\$157.04
13	POLICE	15	\$576.38
14	PUBLIC WORKS	132	\$42,915.73
15	SOLID WASTE	1	\$79.20
16	TALTRAN	3	\$11,175.34
17	TREASURER-CLERK	4	\$577.34
18	UTILITY BUSINESS AND CUSTOMER SERVICES	21	\$1,998.51
19	WATER UTILITIES	12	\$2,005.26
	<b>Grand Total</b>	<b>276</b>	<b>\$342,966.47</b>

